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C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 001284

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DEPARTMENT FOR EAP, EAP/CM
NSC FOR DENNIS WILDER

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SUBJECT: NPC DELEGATES DISCUSS HONG KONG'S ROLE IN CHINA

Classified By: E/P Section Chief Simon Schuchat; Reasons 1.4 (b, d)

11. (C) Summary: During a March 24 lunch with the Consul General, seven Hong Kong delegates to the PRC National People's Congress (NPC) and/or the Chinese People's Political Consultative Conference (CPPCC) discussed the role of Hong Kong in the PRC's Eleventh Five-Year Plan. Several delegates said that some Beijing leaders believed Hong Kong recently had become more of a "problem" than an asset, and they would be "happy if Hong Kong could just maintain the status quo" and "take care of itself." If the central government were to publicly convey this message to Hong Kong, however, it would be attacked in the media for interference in Hong Kong's affairs. While other regions of China would welcome additional assistance from the SAR, which it could provide in areas such as development of legal and management expertise, most Hong Kong entrepreneurs were only interested in sectors where investments offered high rates of return. A recent proposal for Hong Kong to become China's "international center," which some of the Hong Kong delegates had raised at the NPC, was viewed as impractical by other attendees. Following a brief discussion of the RMB exchange rate issue, one of the NPC delegates suggested that we should not expect any "drastic adjustment." End Summary.

12. (SBU) On March 24, seven Hong Kong delegates to the PRC National People's Congress (NPC) and/or the Chinese People's Political Consultative Conference (CPPCC) discussed the recently concluded NPC and CPPCC meetings in Beijing with the CG, E/P Section Chief, and poloff. The guests included Executive Council and Legislative Council (Legco) member Jasper Tsang Yok-sing, of the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB); Asia Financial Holdings Chairman Robin Chan; former Liberal Party Chairman Allen Lee; Hong Kong Basic Law Committee member Raymond Wu Wai-yung; Legco member and Liberal Party founding member Sophie Leung Lau Yau-fun; Hong Kong Polytechnics University Professor Priscilla Lau Pui-king; and Hong Kong Government Central Policy Unit member Tsang Tak-sing (brother of Jasper). All except Jasper Tsang, who is a CPPCC representative, serve as NPC delegates.

Eleventh Five-Year Plan

13. (C) The delegates noted several characteristics of the new Eleventh Five-Year Plan, which was the focus of the NPC meeting in Beijing. Sophie Leung observed that it "put the issues on the table," including the growing income disparities in China and the increasing environmental cost of rapid economic growth. She also noted that the FYP process recently had become much more transparent; during an October 2005 visit to Beijing, she was shown the gist of the new FYP, and during the congress the deputies were allowed to keep

their copies of the plan, rather than return them at the conclusion. Jasper Tsang noted that the plan for the first time encouraged Chinese private enterprises to invest overseas. Tsang Tak-sing said he had drafted an amendment, subsequently adopted, to clarify Hong Kong's role as a center for both logistics and shipping. Since logistics is one of the Hong Kong Government's pillar industries, there could have been a problem had it been omitted. Patricia Lau discussed the plan's target of four percent of GDP for spending on education, with a greater portion of that spending by the national and provincial rather than local governments.

Beijing's View of HK

14. (C) Allen Lee said he was "somewhat concerned" about Hong Kong Chief Secretary Rafael Hui's recent, widely quoted remark that Hong Kong faced a danger of being "sidelined" by the development of the mainland. Along those lines, he had heard in some of his "side meetings" in Beijing that Hong Kong recently had become more of a "problem" than an asset to Beijing. Raymond Wu seconded that remark, adding that Beijing would be "happy if Hong Kong could just maintain the status quo" and "take care of itself." Jasper Tsang agreed, noting that elsewhere in China the discussion focused on "moving ahead," while in Hong Kong people simply wanted to "maintain" the city's role and status. According to Leung, however, if the central government were to publicly convey this message to Hong Kong, it would be attacked in the media for interference in Hong Kong's affairs.

Hong Kong's Role in China

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15. (C) Patricia Lau observed that other regions of China would like to receive assistance from Hong Kong, to which Allen Lee replied that "its too far, their per capita income is still too low." Wu suggested that, "if Hong Kong wakes up," it could usefully provide legal, management, and networking expertise to the mainland, and he said the central government leaders understood what Hong Kong had to offer. Lee, however, replied that "Hong Kong tycoons are greedy" and only want to invest in hotels and infrastructure projects where they can earn 50-100 percent returns on their investment, rather than in industrial projects offering just ten percent return. Leung noted that the first generation of Hong Kong investors in the Pearl River Delta had focused on manufacturing for export, but this was no longer the case. Taiwan companies in the Delta, on the other hand, continued to help integrate the mainland into world markets.

Hong Kong as China's International Center

16. (C) Regarding proposals that Hong Kong become China's "international center," Lau observed that the city already is China's international financial center, but this role could be enhanced through expansion of markets for bonds, commodities, and currency (renminbi); she said some of the Hong Kong delegates had raised this suggestion at the NPC. In her view, if Hong Kong did not take on this role, then China's financial development would be delayed and Hong Kong ultimately would "lose out." If, on the other hand, the proposal were adopted, then Hong Kong would be able to help the mainland with its non-performing bank loan dilemma and with strengthening its banking sector. Allen Lee observed that this proposal would be extremely difficult for the government to implement; if they did so, then it would only be for political reasons. Tsang Tak-sing noted a recent news article suggesting that this plan would antagonize mainlanders for giving additional preferences to Hong Kong.

RMB Exchange Rate

¶7. (C) Lau inquired about U.S. pressure on the PRC regarding the renminbi (RMB) exchange rate. She defended the central government's maintenance of its managed exchange rate, noting that Beijing would adjust the rate in a "reasonable and gradual way." In response the Consul General, noting the imminent arrival of Codel Schumer from the mainland, observed that the Chinese and U.S. Governments had agreed two years ago that the RMB was undervalued and that the exchange rate needed gradual readjustment, but that the USG had expected to see more rapid change. Lau agreed that "in principle" the RMB should be more flexible, but we could not expect any "drastic adjustment."

Cunningham